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FM AMCONSUL JERUSALEM
TO RUEHC/SECSTATE WASHDC 0000
INFO ARAB ISRAELI COLLECTIVE
RHEHNSC/NSC WASHDC
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SIPDIS

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NEA FOR FRONT OFFICE; NEA/IPA FOR
WILLIAMS/SHAMPAINE/STEINGER; NSC FOR ABRAMS/DORAN/WATERS;
TREASURY FOR SZUBIN/LOEFFLER/NUGENT/HIRSON

E.O. 12958: N/A

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SUBJECT: WORLD BANK STUDY TIES GAZA'S ECONOMIC REVIVAL TO
OPENING OF RAFAH TRADE CORRIDOR

¶1. (SBU) SUMMARY: A WORLD BANK STUDY OF ALTERNATIVES FOR PALESTINIAN TRADE HAS CONCLUDED THAT OPENING THE RAFAH TRADE CORRIDOR FOR EXPORTS FROM THE GAZA STRIP THROUGH EGYPT WOULD SIGNIFICANTLY BOOST THE FLAGGING PALESTINIAN ECONOMY. ACCORDING TO THE STUDY, THE RAFAH TRADE CORRIDOR PROVIDES COMPETITIVE LOGISTICS AND COSTS FOR PALESTINIAN EXPORTERS TO ACCESS KEY MARKETS, SUCH AS EUROPE AND THE GULF. ACCESS TO THESE MARKETS WILL REDUCE HISTORICAL PALESTINIAN DEPENDENCY ON ISRAEL AND HELP PALESTINIANS COMPETE IN THE GLOBAL MARKET. WORLD BANK PERSONNEL ASSERT THAT THE AGREEMENT ON MOVEMENT AND ACCESS (AMA) PROVIDES THE BASIS FOR IMMEDIATE USE OF RAFAH FOR EXPORTS, WHICH COULD BEGIN FLOWING IN LESS THAN TWO WEEKS AFTER CONCLUSION OF A JOINT AGREEMENT ON BORDER PROCEDURES. END SUMMARY.

¶2. (SBU) IN A JANUARY 10 PRESENTATION AT THE CONSULATE GENERAL, WORLD BANK SENIOR FINANCIAL SECTOR SPECIALIST JOSEPHINE BASSINETTE AND WORLD BANK TRADE CONSULTANT JOHN ARNOLD STATED THAT THEIR RESEARCH CONCLUDED THAT THE RAFAH TRADE CORRIDOR IS A PREFERABLE ALTERNATIVE TO THE HEAVILY RESTRICTIVE KARNI/AL-MINTAR CROSSING FOR MOVING PALESTINIAN PRODUCTS OUT OF THE GAZA STRIP. THEY STRESSED THAT OPENING THE RAFAH CROSSING --INITIALLY ONLY FOR EXPORTS FROM GAZA-- IS URGENTLY NEEDED IN ORDER TO HELP REVIVE THE PALESTINIAN ECONOMY.

BREAKING WITH THE PAST

¶3. (SBU) THE PRESENTERS NOTED THAT PALESTINIAN TRADE HAS BEEN LINKED TO THE ISRAELI ECONOMY SINCE 1967. THE VALUE OF PALESTINIAN TRADE WITH ISRAEL, HOWEVER, IS NOW STAGNANT AND OPPORTUNITIES TO MOVE TO HIGHER VALUE-ADDED PRODUCTS ARE LIMITED. AS ISRAEL HAS MOVED TO HIGHER VALUE-ADDED GOODS AND SERVICES, THE LEVEL OF PROTECTION HAS DECREASED AND WEST BANK/GAZA GOODS HAVE FACED INCREASED COMPETITION. BASSINETTE AND ARNOLD, THEREFORE, ASSERTED THAT, EVEN IN THE ABSENCE OF THE SERIOUS RESTRICTIONS ON THE MOVEMENT OF GOODS, PALESTINIAN EXPORTS TO ISRAEL WOULD CONTINUE TO DECLINE. SINCE 2000, THE VOLUME OF TOTAL PALESTINIAN TRADE HAS BEEN STATIC OR DECLINING AT A TIME WHEN GLOBAL MERCHANDISE TRADE ROSE BY 4.2 PERCENT EACH YEAR FOR THE PAST 10 YEARS. WHILE ISRAEL WILL REMAIN AN IMPORTANT TRADING PARTNER, IF THE PALESTINIAN ECONOMY IS TO GROW, IT MUST FIND AND GAIN DIRECT ACCESS TO NEW MARKETS.

RAFAH: A QUICK AND COST-EFFECTIVE ALTERNATIVE

14. (SBU) WORLD BANK STAFF ASSERTED THAT THE RAFAH TRADE CORRIDOR PROVIDES THE QUICKEST, MOST COST-EFFECTIVE MEANS OF MOVING GOODS OUT OF GAZA AND ON TO EUROPE, THE GULF AND DEVELOPING MARKETS IN ASIA. THE WORLD BANK PRESENTATION PROMOTED SHIPPING OPTIONS SUCH AS TRUCKING PALESTINIAN GOODS TO THE AL-ARISH AIRPORT, CAIRO AIRPORT, OR SUEZ CANAL CONTAINER TERMINAL-PORT SAID FOR ONWARD SHIPMENT BY AIR OR SEA TO EUROPE AND THE GULF. ALTERNATIVELY SOME GOODS COULD BE TRUCKED FROM RAFAH TO NUWEIBA, THEN SHIPPED BY FERRY TO SAUDI ARABIA, AND TRUCKED OVERLAND TO THE UAE. UNDER MOST SCENARIOS AND FOR MOST PRODUCTS, EGYPTIAN PORTS/AIRPORTS OFFER CHEAPER RATES AND SHORTER DELIVERY TIMES WHEN COMPARED TO THOSE OF ISRAELI PORTS/AIRPORTS, ACCORDING TO THE WORLD BANK FINDINGS. IN ADDITION, THE WORLD BANK STUDY USED "STANDARD COSTS" AND NOT THE EXORBITANT "UNOFFICIAL" FEES NOW BEING CHARGED AT THE KARNI/AL-MINTAR CROSSING WITH ISRAEL, CURRENTLY THE SOLE OUTLET FOR COMMERCIAL GOODS LEAVING GAZA.

NEXT STEPS

15. (SBU) BASSINETTE STATED THAT THE AMA PROVIDES THE BASIS FOR IMMEDIATE USE OF THE RAFAH CROSSING FOR EXPORTS FROM GAZA. ARNOLD SUGGESTED THAT A JOINT AGREEMENT ON BORDER PROCEDURES BE REACHED WITH THE PALESTINIANS, EGYPT AND EU-BAM. BOTH BASSINETTE AND ARNOLD NOTED THAT EGYPTIAN AND ISRAELI SECURITY CONCERNS WOULD ALSO HAVE TO BE ADDRESSED BUT ADDED THAT THE FOCUS SHOULD BE ON THE CROSSING ITSELF AND NOT THE ENTIRE BORDER. (NOTE: EU-BAM COORDINATION WITH THE ISRAELIS AND PALESTINIANS HAS BEEN WORKING WELL. THE EGYPTIANS HAVE RECENTLY BEEN INVITED TO FILL A POSITION AT THE KEREM SHALOM LIAISON CENTER, THEREBY ENHANCING EGYPT'S

ROLE IN COORDINATING RAFAH CROSSING ACTIVITIES. END NOTE.) "DEMONSTRATION" SHIPMENTS UNDER SPECIAL ARRANGEMENT WOULD FOLLOW. THE PALESTINIANS AND EGYPTIANS WOULD ALSO HAVE TO NEGOTIATE IMPLEMENTATION OF A TRANSIT PROTOCOL CONSISTENT WITH INTERNATIONAL PRACTICES. ARNOLD ASSERTED THAT A BASIC BACK-TO-BACK OPERATION COULD BE SET UP IN AS LITTLE AS TEN DAYS. HE ALSO SAID THAT ONCE EGYPTIAN AUTHORITIES ARE CONFIDENT THAT THE GAZA PRODUCTS WOULD BE FOR RE-EXPORT ONLY AND WOULD NOT COMPETE WITH EGYPTIAN GOODS ON THE DOMESTIC MARKET, EGYPTIAN AUTHORITIES WOULD WELCOME THE INCREASED PORT/FREIGHT FEES AND ASSOCIATED BUSINESS FROM OPENING THE RAFAH CORRIDOR.

16. (SBU) COMMENT: GIVEN THE DIFFICULTIES THAT CURRENTLY EXIST AT RAFAH - ISRAELI OBJECTIONS TO REGULAR OPERATIONS, HAMAS EFFORTS TO TRANSFER CASH TO GAZA, AND LIMITED PALESTINIAN CAPABILITY TO MANAGE THEIR END OF THE OPERATION - OPENING A BACK-TO-BACK CARGO OPERATION WILL BE MORE DIFFICULT THAN THE WORLD BANK TEAM SUGGESTED. THAT SAID, THE IDEA MAKES ECONOMIC SENSE AND SHOULD BE EXPLORED IN ORDER TO PROMOTE LONG-TERM DEVELOPMENT IN GAZA.

WALLES